

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**TOWN OF FRANKFORD**

**WATER BILLINGS**

**SPECIAL INVESTIGATION**

**FIELDWORK END DATE: JANUARY 22, 2008**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901  
TELEPHONE 302-739-4241  
FACSIMILE 302-739-2723  
[www.state.de.us/auditor/index.htm](http://www.state.de.us/auditor/index.htm)



State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr. – CFE, CGFM, CICA  
**At a Glance**

*Working Hard to Protect YOUR Tax Dollars*

### Why We Did This Review

The Office of Auditor of Accounts (AOA) received the following allegations regarding the Town of Frankford (Town):

- The Town Secretary is embezzling and mismanaging funds and receiving kickbacks from a vendor;
- Water meter logbooks do not agree to customers' water bills.

### Background

The Town is located in Sussex County, Delaware. According to the most recent Census in 2000, the Town holds a population of 714. The Town received funding from the State of Delaware as follows:

- FY06 - \$193,860.83
- FY07 - \$118,289.65
- FY08 - \$40,854.12

**For further information on this release, please contact:**

**Nicholas Adams**  
**(302) 857-3945 Direct**  
**(302) 222-5032 Mobile**

## TOWN OF FRANKFORD—WATER BILLINGS

### What We Found

- The allegations were unsubstantiated.
- The Town does not have written policies and procedures that detail billing, receipt, payment, and reconciliation processes.
- The Town Administrator issues the water bills, receives payments, prepares and makes bank deposits, maintains the financial data in QuickBooks, and performs the bank reconciliations. No one reviews the bank reconciliations after they are completed.
- Water billings for the periods ending 9/18/07 and 11/19/07 were not processed until January 2008 and February 2008, respectively.

### What We Recommend

- Develop policies and procedures that address controls such as authorization, segregation of duties, management review, and reconciliation, that are sufficiently detailed to provide:
  - An understanding of the Town's objectives,
  - A basis for training new personnel;
  - A means of communicating common information;
  - A source of information about accounting controls, and
  - A source of information that will aid in providing continuity in the event experienced personnel leave.
- The Town should segregate duties as much as possible with the limited staff. A management review process should be incorporated. Procedures should be developed for monitoring bank reconciliations to ensure proper segregation of duties between those creating the transactions and those approving the reconciliations. For example, if the Town Administrator is tasked with preparing and mailing checks, then another individual should receive the unopened bank statement and prepare the bank reconciliation. The reconciliation should be reviewed and approved by a management level position (e.g. Town Council President).
- The Town should adhere to a consistent billing schedule as much as possible. The invoices should be sent to Town customers no longer than one month after the meter reading date. One month should allow time for data processing, and any delay that may be caused by a small departmental size. Having earned income in arrears reduces the amount of interest that could be received by the Town; therefore, a consistent billing schedule should be followed by all parties involved (i.e. meter reader, data processor, etc.).

**Please read the complete report for a full list of findings/recommendations and to review the Town's response to our findings.**

---

# TABLE OF CONTENTS

---

Audit Authority	1
Allegation and Background	2
Objectives, Scope, and Methodology	3
Conclusions	4
Findings and Recommendations	5
Distribution of Report	8

---

# AUDIT AUTHORITY

---

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

---

# ALLEGATION AND BACKGROUND

---

## ALLEGATION

The Office of Auditor of Accounts (AOA) received the following hotline complaints for the Town of Frankford (Town):

- The Town Secretary is embezzling and mismanaging Town funds and receiving kickbacks from a vendor;
- Water meter logbooks do not agree to customers' water bills.

## BACKGROUND

The Town of Frankford is located in Sussex County, Delaware. According to a 2000 US Census, the Town holds a population of 714.

State funding to the Town of Frankford for FY06, FY07, and FY08 through December 31, 2007 was as follows:

	Public Health- Community Health	Court of Common Pleas	Justice of the Peace	Indian River School District	Totals
FY06*	\$48,390.89	\$1,099.50	\$ 46,581.84	\$ 97,788.60	\$193,860.83
FY07	27,930.64	1,976.89	47,428.57	40,953.55	118,289.65
FY08	-	145.00	32,553.82	8,155.30	40,854.12
Totals	\$76,321.53	\$3,221.39	\$126,564.23	\$146,897.45	\$353,004.60

\* FY stands for fiscal year. The Town's fiscal year covers the period of July 1 through June 30.

---

# OBJECTIVES, SCOPE, & METHODOLOGY

---

## **OBJECTIVES**

The objective of the investigation was to determine the propriety of water meter billings and collections.

## **SCOPE**

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

A review of water billings was performed for the period of July 1, 2006 through December 31, 2007.

## **METHODOLOGY**

Investigative techniques included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

The investigation consisted of the following procedures:

- Review water billings and recalculate for accuracy.
- Determine if funds were appropriately deposited into the Town's bank account(s).
- Develop recommendations to improve controls.

---

# CONCLUSIONS

---

***Objective 1: Determine the propriety of water meter billings and collections.***

In order to determine the propriety of water meter billings and collections, AOA reviewed the original documentation of meter reading books and water billings invoices. A haphazard sample of 25 customers was selected for testing for the period July 1, 2006 through December 31, 2007. The only governing authority implemented by the Town was the Town Ordinances. The water billings rates were compared to the approved rates as documented in the Town Ordinances. The billings were recalculated and compared to the actual amount billed. No discrepancies were found in the billings tested. AOA determined that funds were appropriately deposited into the Town's bank account by comparing the amount paid to the amount deposited per the bank statement. No discrepancies were found.

Conclusion: Allegation was unsubstantiated.

---

# FINDINGS AND RECOMMENDATIONS

---

## **Written Policies and Procedures**

### ***Finding:***

The Town does not have written policies and procedures that detail billing, receipt, payment, and reconciliation processes.

Managers are responsible for establishing and maintaining internal controls through written procedures. Written procedures are beneficial for the training of current and new employee/staff. Procedures should include sufficient information to permit an individual who is unfamiliar with the operations to perform the necessary activities. Documentation is an important aspect of control and communication. It generally provides: (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave. The Town's Ordinances are not specific in providing information on routine procedures. A lack of written procedures increases the risk of loss of funds, theft of assets, and disruption of operations.

### ***Recommendation:***

The Town should develop policies and procedures that address controls such as authorization, segregation of duties, management review, and reconciliation, that are sufficiently detailed to provide:

- An understanding of the Town's objectives,
- A basis for training new personnel;
- A means of communicating common information;
- A source of information about accounting controls, and
- A source of information that will aid in providing continuity in the event experienced personnel leave.

### ***Auditee Response:***

The Council recognizes the vulnerability of having limited staffing and with that the disadvantages of such. We hope with the development and adoption of the Comprehensive Development Plan (CDP) that we will be enabled financially by the increased tax base created by annexation to possibly hire additional staffing. The Town would then benefit by the hiring of additional administrative staffing to properly segregate existing accounting duties as well as future duties as the Town potentially grows. The Town corporate limits currently consist of 2.25 miles in size and being limited in size has both its advantages and disadvantages. We acknowledge these constraints and limitations and in doing so have hired and rely on our competent and very extensive and creditable audit yearly of the Towns financial reports. They review all aspects of the Towns operating procedures and in doing so have very stringent levels to meet in complying with the "yellow book standards" involved with both Federal and State level agencies.



---

# FINDINGS AND RECOMMENDATIONS

---

## **Segregation of Duties**

### ***Finding:***

The Town Administrator issues the water bills, receives payments, prepares and makes bank deposits, maintains the financial data in QuickBooks, and performs the bank reconciliations. No one reviews the bank reconciliations after they are completed.

Duties should be segregated among different people to reduce the risk of error or inappropriate action. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, due to small departmental size, a detailed supervisory review of related activities is required as a mitigating control activity.

Although a lack of written policies and procedures and small departmental size limits the Town from having adequate segregation of duties, good business practices and sound internal control can reduce the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties.

### ***Recommendation:***

The Town should segregate duties as much as possible with the limited staff. The bank reconciliation process should be developed to ensure proper segregation of duties between the individual creating the transactions and the individual preparing the reconciliations. For example, if the Town Administrator is tasked with preparing and mailing checks and recording and depositing funds, another individual, such as the Town Council Treasurer, should receive the unopened bank statement and prepare the bank reconciliation. The reconciliation should be reviewed and approved by a management level position (e.g. Town Council President).

### ***Auditee Response:***

While the limited staffing does not allow for the segregation of duties the Town does require the Town Administrator to file a monthly financial report which is presented monthly to Council and then part of the formal minutes on file.

These reports, bank statements, and other documentation are also part of the yearly audit over view performed by Jefferson, Urian, Doane, and Sterner. The Town Council - Secretary/Treasurer also has the availability of reviewing said documents on any given date. The bank reconciliations are performed monthly and have never had discrepancies noted. Again, it should be noted that the limitation outlined are known but with restrictive means to hire additional staffing can not correct this aspect of the findings at this time.

---

# FINDINGS AND RECOMMENDATIONS

---

## **Untimely Water Billings**

### ***Finding:***

Water billings for the periods ending 9/18/07 and 11/19/07 were not processed until January 2008 and February 2008, respectively.

Although the Town does not have a specific policy governing the time period for a water billing to be issued, it is not good business practice to bill a customer more than one month after the meter reading. The Town's small departmental size and lack of written procedures prohibits the Town from issuing billings in a timely manner. Timely issuance of invoices provides a steady flow of funds through the Town, allows for an organized structure for water billings, and reduces the risk that any one person could perpetrate and/or conceal errors within the normal course of his or her duties.

### ***Recommendation:***

The Town should adhere to a consistent billing schedule as much as possible. The invoices should be sent to Town customers no longer than one month after the meter reading date. One month should allow time for data processing, and any delay that may be caused by a small departmental size. Having earned income in arrears reduces the amount of interest that could be received by the Town; therefore, a consistent billing schedule should be followed by all parties involved (i.e. meter reader, data processor, etc.).

### ***Auditee Response:***

The Town always bills for water in a two month increment to the arrears of usage. We will make every attempt to adhere to a more consistent billing schedule. There are many factors that create minor delays in billing such as staffing, weather, holidays, and vacations. We acknowledge your suggestion and will make a more concentrated effort to perform the billings on a timely basis.

In closing, we appreciate your efforts to investigate the allegations and in doing so have offered an outside review and insight to areas needing to be addressed.

---

# DISTRIBUTION OF REPORT

---

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mr. Greg Johnson, President, Town of Frankford, Delaware